Exceptional

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India

Entrepreneurship + Innovation = Growth

"The growth in the Indian economy is giving us confidence"

A. Vellayan tells us about Murugappa Group's plans for the future

Engine of growth
Sir Michael Marshall on why the 100-year-old Marshall Group is still on the cutting edge

Doing business in India
An overview of regulation, legislation and tax

In the driver's seat
Bill Ford on innovation, surviving the recession and maintaining his family's legacy

Deep roots, grand ambitions

A. Vellayan, Executive Chairman of the Murugappa Group, explains why this family business is surpassing expectations — and aiming to double its turnover by 2013

The phrase "family-owned, professionally run" is still considered to be something of an oxymoron in India. But not so in the case of the US$3b Chennai-headquartered Murugappa Group. The family business handed over control to a professional management team in the late 1980s, when the group was led by the late M. V. Arunachalam.

It's also an exception to the rule in terms of longevity. While most Indian family businesses start showing signs of a split as early as the second generation, the Murugappa Group family has held on for more than 100 years. And it has grown: since 2002–03, group turnover has increased threefold, from US$917m.

Today, it has 29 businesses in sectors ranging from engineering to nutraceuticals. It has manufacturing facilities in 13 Indian states and alliances with multinationals such as Mitsui Sumitomo, Foskor, Cargill and Groupe Chimique Tunisien.

The family holds a stake of between 45% and 65% in each business. "With professionals at the helm of affairs, the family gets higher returns," says A. Vellayan, Executive Chairman. The aim is to double turnover to US$7.2b by 2013–14.

International roots

The Murugappa Group was founded in 1900 by Dewan Bahadur A. M. Murugappa Chettiar, who had set up a money-lending and banking business in Burma (now Myanmar) that later spread to Malaysia, Sri Lanka, Indonesia and Vietnam. In the 1930s, prior to ↘

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A. Vellayan leads the US$3b Murugappa Group

Murugappa Group aims to grow market share for greater pricing power

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the Japanese invasion of Burma during World War II, it moved its assets back to India and started operations from scratch.

With time, more family members entered the business. The third generation saw six family members in the business, while the fourth generation had seven. The fifth generation, which is now entering the group, will probably have 10 members in the company. "They don't get to head businesses just because they are family," says Vellayan. "Many are required to take up jobs outside before joining the group."

In the late 1980s, the group sought the help of Dr. Ashok Ganguly, the then Chairman of Hindustan Lever (now Hindustan Unilever), to devise a new way of assessing the family business. He created the Murugappa Corporate Board, which had three external directors, three executive directors and two family members.

Today, external directors assess all family members and the family has shifted from ownership to trusteeship. While the family does play an entrepreneurial role in the group businesses, implementation of the strategy and achievement of goals is left to the professionals. As the group grew, it brought in more professionals with a better understanding of the industry and fostered an appetite for risk within the group. Today, nearly 40% of the remuneration of top management is performance-linked.

Efficiency drive

The strategy is paying off. In 2005, South Africa-based Foskor invited bids to improve the performance of its phosphoric acid business in return for a 2.5% stake that would get converted into sweat equity (and grow to 16.5% if Foskor's performance improved). Coromandel Fertilizer, a Murugappa company, bid and won.

"Our team put a three-year performance improvement plan in place, which resulted in a 95% increase in productivity," Vellayan says. As a result, Coromandel acquired a 14% stake in Foskor for only US$6m.

This is perhaps what the group knows best: bringing about efficiencies. That's why its target to double its turnover seems achievable. Nearly 70% of this growth will be organic, while the rest will be achieved through greenfield operations, tie-ups and acquisitions. "What is giving us the confidence is the growth in the Indian economy," says Vellayan. "We are fortunate to be operating in the part of India that is growing faster than 8.5% a year."

95%

By how much Coromandel improved Foskor's productivity

The group is working towards creating entry barriers through a presence in a greater proportion of the value chain. "This will give us a better understanding of our businesses and the ability to take advantage of opportunities and react faster," he adds.

Through this strategy, Vellayan hopes to garner a sizeable market share in seven key businesses: fertilizers (Coromandel International), abrasives (Carborundum Universal, or CUMI), finance (Cholamandalam Investment and Finance Company), sugar (EID Parry), engineering (Tube Investments of India), cycles (Tube Investments of India) and general insurance (Cholamandalam MS General Insurance Company, a joint venture with Mitsui Sumitomo of Japan). "Unless we have a larger market share, we do not have ample pricing power," says Vellayan.

For each of the seven key businesses, the group has a strategy in place. For instance, in fertilizers, Vellayan feels there is a need to be more aggressive in areas such as pesticides and farm mechanization. In abrasives, CUMI needs to look for international consolidation possibilities. The Murugappa Group is not a major player in finance, and Vellayan hopes to grow this business more aggressively in southern India. Similarly, in sugar, EID Parry needs to look beyond southern India.

Alongside the growth strategies, the group is focusing on brand building. Recently, it launched its new logo. With growth, it has become increasingly difficult to draw talent. "Through the new logo, we seek to create a sense of pride among our employees," says Vellayan. That should be easy, given the group's track record and the freedom it gives to its professionals.

Viewpoint

Key challenges for family businesses

N. S. Rajan, EMEIA People & Organization Leader, Ernst & Young

"Happy families are all alike; every unhappy family is unhappy in its own way," observed Leo Tolstoy in *Anna Karenina*. This also rings true for family businesses. Family-owned businesses have been key drivers of every economy. Some go on to become world-class multinationals, while others are on the road to perdition. Inherent characteristics of family businesses have often proved to be sources of competitive advantage.

On the other hand, these very features also make such enterprises vulnerable, beset by challenges requiring careful mitigation.

As enterprises evolve and pass through the complex stages of growth, much depends on the interplay of the three overlapping elements: family, ownership and management. In the early days, all these circles stay nested together with minimum conflict. As the company progresses, there is a need for infusion of capital and advisory support, providing entry to external stakeholders, who now co-own the enterprise.

With accelerating growth, professionalization is imperative, and management starts becoming a shared responsibility. Success of a family enterprise requires the recognition of the interdependence of these three elements, with clear delineation of roles to ensure corporate longevity.

"Generational drift," resulting in ownership fragmentation, affects long-term survival, with only 30% of family-owned businesses successfully passing to the second generation, 15% to the third generation and just 5% to the fourth generation. The key to endurance and long-term vitality is intrinsically dependent on enabling the coexistence and growth of both family and organization. No family has been able to consistently provide all the competent managers needed to fuel growth. The criticality of the human resources function is underlined by company growth theories that reflect positive correlations among size, complexity and professional human resource management practices. Family businesses must invest time and effort to attract, retain and motivate the best available talent on the path of growth through responsible ownership to ensure continuity.

Intellect is the new form of property and must be used effectively. This means disseminating the vision and values to create a sense of shared purpose. This will ensure that professional managers are empowered, robust policies are institutionalized and meritocracy is enabled. There must be a culture of equity in which employees are valued.

An effective system of succession planning, a hallmark of good governance, is also imperative. This requires the active involvement of the board, which works closely with the current family owners to identify potential successors through a consensual process. The business historian Gita Piramal aptly observed: "A trader thinks of today's profit, an industrialist looks at tomorrow's balance sheet, but a legend thinks of the next generation." Murugappa Group provides a good example of how to separate ownership and management, create future leaders through mentoring and enable a professionally run enterprise.

More information

To learn about how Ernst & Young can support your business in harnessing human capital and enabling effective succession planning, email N.S. Rajan at **ns.rajan@in.ey.com** or speak to your local Ernst & Young contact.